

## Engineering Outlook May 2010

### An uneven expansion

After a difficult 2009, the volume of production in the Swedish engineering industry is expected to grow by 5 % in 2010. It is worth mentioning that the global pick up in activity in the engineering industry starts from a low level, thereby giving strong statistical base effects. The expansion is also quite different between sectors and between countries.

For the sectors in Sweden, we expect that the **transport equipment** industry will grow by 20 % in 2010, after a decline of 45 % in 2009. Producers of mechanical **machinery** will grow over the year as demand is expected to improve. But production will only grow on average by just one percent.

Demand for **metal goods** has increased as the level of production in the global engineering industry has risen lately. The sector is expected to grow by 7 % this year.

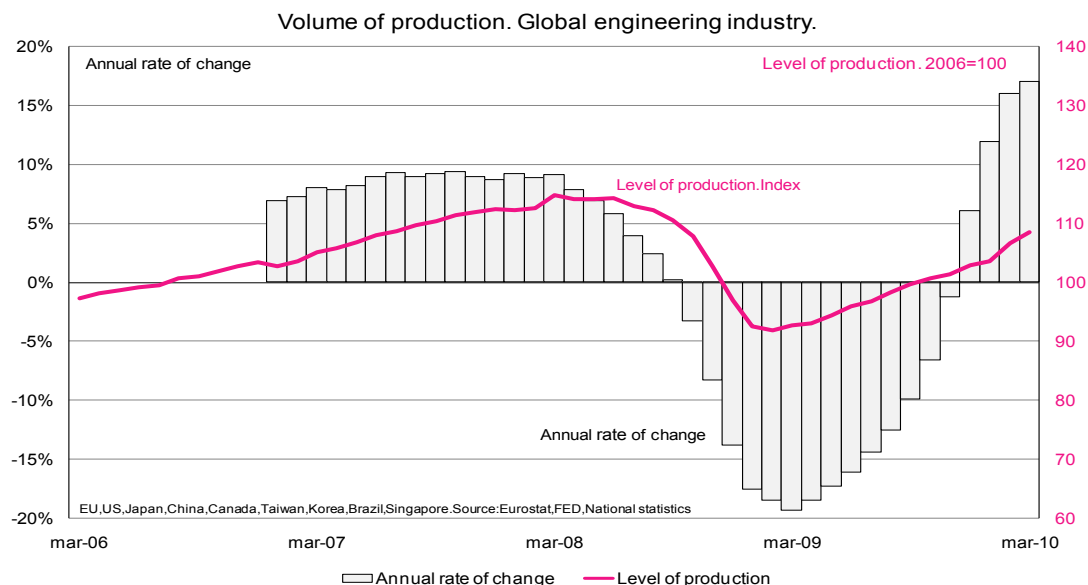
The recovery in the overall **electrical-** and electronics sector is expected to be modest as closure of plants in telecom will affect the telecom-and electronics negatively in 2010.

High growth, or 25 % in volume, is expected in the Chinese engineering industry. A recovery has also started in the United States and Germany where production is expected to grow by about 10 % and 8 % respectively.

The global ICT-sector shows a strong performance at present. In the motor car industry the gradual pick up that started in mid 2009 is unfortunately not as strong as earlier. Statistical base effects in the car industry show however very rapid growth compared to the situation a year ago.

Investment goods sector is lagging behind other engineering sectors as utilization of capacity is still below average and as profits has not yet recovered fully.

The outlook is based upon a credible and firm debt restructuring in those countries mostly affected by high public debt at present, including the USA.



### Volume of production. Engineering industry

	2009	2010
Annual rate of change	Prel.	Forecast
<b>China</b>	<b>+12,5</b>	<b>+25,0</b>
<b>USA</b>	<b>-15,0</b>	<b>+10,0</b>
<b>EMU</b>	<b>-23,0</b>	<b>+5,0</b>
<b>Germany</b>	<b>-23,0</b>	<b>+8,0</b>
<b>Japan</b>	<b>-29,0</b>	<b>+25,0</b>
<b>Sweden</b>	<b>-29,0</b>	<b>+5,0</b>

Source: National statistics.  
Teknikföretagen.  
ISIC Rev.4. 25-30 or equivalent

## Business situation in the Swedish Engineering industry

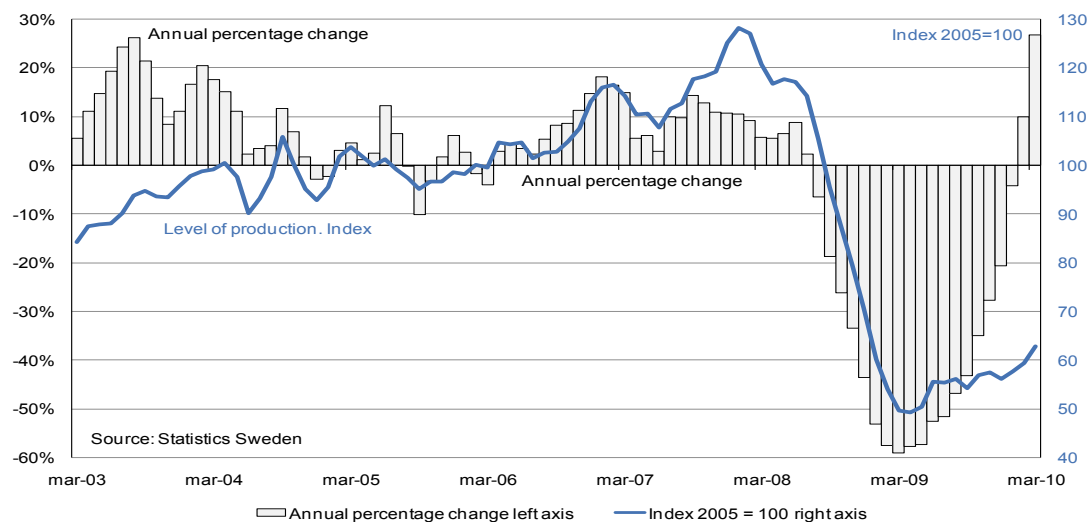
The volume of production of heavy trucks fell by 50 % last year as sales fell rather dramatically on most European markets. Sales have continued to be rather sluggish in 2010 in Europe as registrations fell by about 30 % during the first quarter compared to the previous quarter of 2009. Against the background of an improvement of new orders for truck manufacturers in the beginning of 2010 we expect that production will start to grow modestly or by 10 % this year.

Producers of passenger cars have had a tough period and production fell to 129 000 units last year. Production has stepped up over the last couple of months. If the production and sales plans are successful we expect that about 165 000 units will be produced this year.

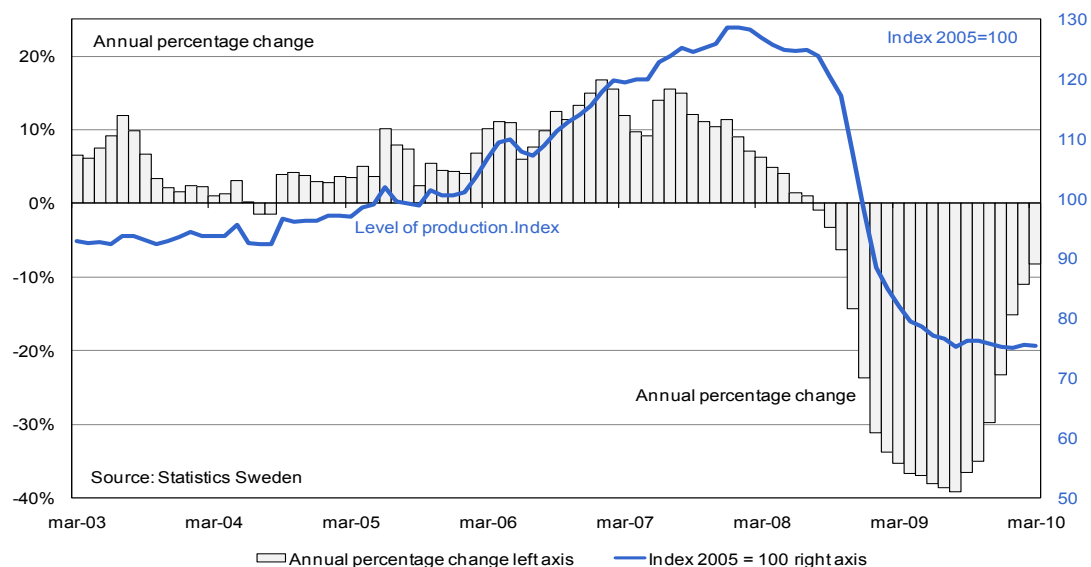
Manufacturers of car parts have naturally been negatively affected of the steep drop in volumes for final producers both in Sweden and on the major export markets. There are however signs of improvement as volumes for final producers have picked up. As volumes on both the domestic market and on export markets (80 % of exports is sold in Europe) will be higher this year, suppliers will also benefit. We expect that the production volume for suppliers will grow by about 15 % in 2010.

After a substantial drop in production of 35 % in 2009, there are few signs of higher activity in producers of machinery and equipment. The level of production actually fell between the fourth quarter 2009 and first quarter 2010. However, higher utilization in the manufacturing industry normally raises the demand for machinery and with an improvement of profits we foresee a gradual pick up in production over the year. Production will only grow on average by one percent in 2010, but with a high expansion at annual rate during the second half of 2010.

Volume of production. Motor car industry. Sweden



Volume of production. Industry of machinery and equipment Sweden



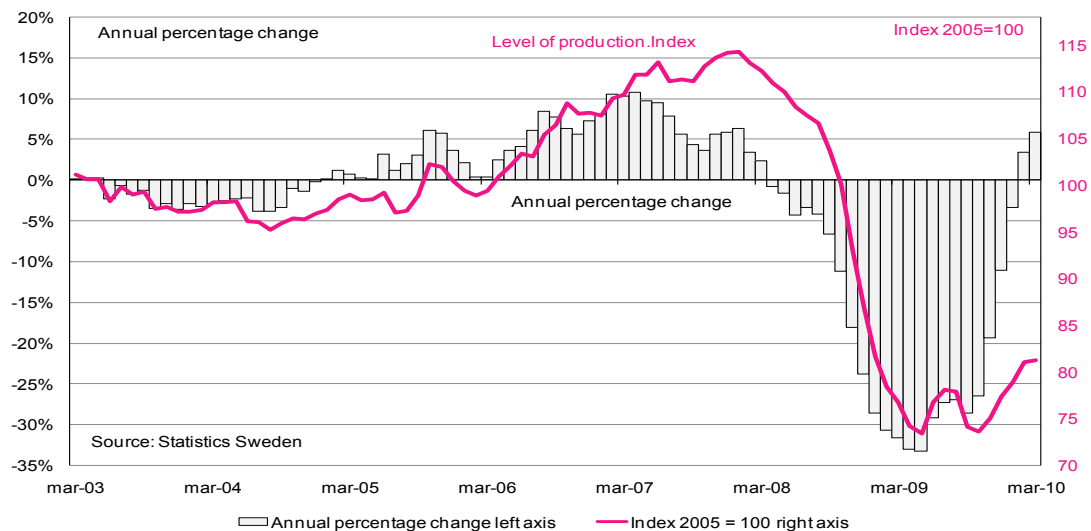
Some sectors within electrical engineering, instruments and telecom industry have had rather strong demand. Energy related products and medical instrument have shown strong growth for about a year, but with a gradual deceleration. Growth in those sectors is not expected to be as strong as last year. We expect an improvement for domestic appliances and instruments for measuring and process control as industrial activity and as demand in households strengthens. Due to plant closures, a drop in volume in telecom is expected in 2010. For the sector as a whole, electrical engineering, instruments and telecom, a drop in production of 10 % is expected in 2010.

Demand has increased for the metal goods industry as the level of production in the overall engineering industry has risen. Most producers in this sector are suppliers of inputs of different kinds. The level of production in the metal goods sectors has grown by 12 % since the bottom in September last year. Generally, exports are heavily dependent on activity in the engineering industry in Europe. Exports have risen lately for the metal sector since the level of production in Europe has grown during the past couple of months. With higher demand on export markets, we expect that volume of production for the metal sector will grow by 7 % in 2010, with the highest demand coming from the motor car industry.

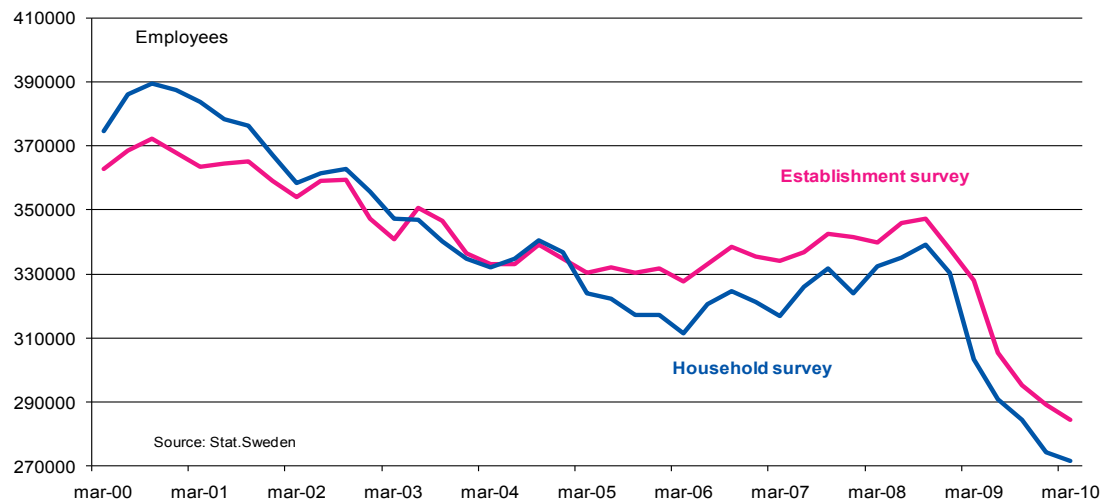
### The labour market

Employment fell by 11 % last year to 304 000 employees. Recently, the number of employees given notice of lay-off has fallen to a sort of normal level. With production expected grow in 2010 we foresee a stabilization in the number of employees with the beginning of mid 2010. On average, employment will fall by 6 % in 2010 due to a reduction in the first half year of 2010.

Volume of production. Metal goods industry Sweden



Number of employees. Engineering industry Sweden



### Improvement in business indicators

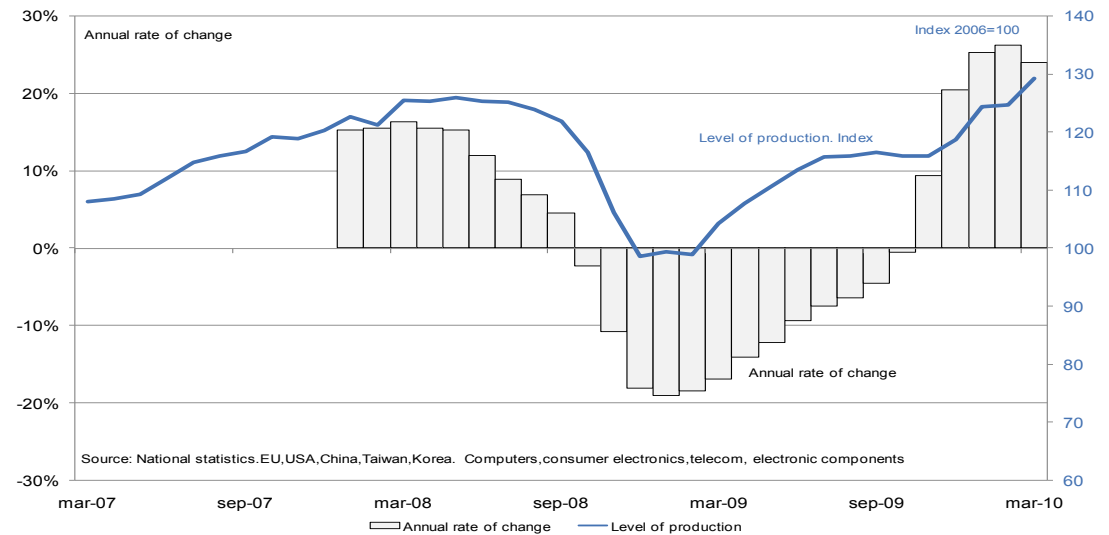
Business cycle indicators such as leading indicators, cost of capital, purchasing managers' index and inventories of finished goods show that the global engineering industry has entered a phase of expansion.

The level of production in the global engineering industry has risen by about 15 % since the second quarter of last year. This has mainly been driven by a higher production in the motor car industry after a period of destocking of finished products during 2009. Apart from motor cars is the ICT sector showing considerable strength in Asia where the level of production at present in for example Korea and Taiwan is at about the same level as before the financial crisis.

The investment goods industry is lagging behind a bit compared to other sectors. As utilization in industry is picking up and as profits is expected to improve we expect a gradual improvement during 2010. However, limited bank lending to the business sector in USA and in the EMU-countries is still affecting customers to the investment goods industry negatively.

It is of utmost importance that fiscal policies become more restrictive and credible. The outlook that we present is based upon a credible and firm debt restructuring in the public sector. Given that debt restructuring is successful, global engineering industry is expected to grow at a higher rate in 2011.

Volume of production. ICT-industry



Volume of production. Engineering industry Sweden.

